

CITY OF ELDON

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
APRIL 1, 2020 THROUGH MARCH 31, 2021**

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City of Eldon

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Began</u> | <u>Term Expires</u> |
|-----------------|----------------------|-----------------------|-------------------------|
| Jerry Potts | Mayor | Jan 2020 | Jan 2022 |
| Tom Bedford | Council Member | Jan 2020 | Jan 2024 |
| Stacey Doree | Council Member | Jan 2020 | Jan 2024 |
| Brian Keasling | Council Member | Jan 2018 | Jan 2022 |
| David Showman | Council Member | Jan 2020 | Jan 2024 |
| Jane Sapp | Council Member | Jan 2018 | Jan 2022 |
| Carrie Teninty | City Clerk/Treasurer | | Indefinite |
| Patty Robertson | Deputy Clerk | | Indefinite |
| Ryan Mitchell | Attorney | | Indefinite |

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of the City Council
City of Eldon

I performed the procedures below which were established at Iowa Code Chapter 11.6, to provide oversight of certain Iowa cities. Accordingly, I have applied certain procedures to selected accounting records and related information of the City of Eldon for the period April 1, 2020 through March 31, 2021, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Eldon's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The City of Eldon's management has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose to report, in accordance with Chapter 11.6 of the Code of Iowa, recommendations pertaining to selected accounting records and related information of the City including the City's compliance with certain Code of Iowa recommendations. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures I performed are summarized as follows:

1. I observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. I obtained an understanding of the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. I observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. I obtained and observed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. I scanned City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. I observed the City's fiscal year 2020 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.

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7. The City had no investments.
8. I scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.
9. I scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. The City had no TIF.
11. I traced selected receipts to accurate accounting and consistency with the recommended COA.
12. The City had no voter approved levies.
13. I traced selected disbursements to proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
14. The City had no transfers.
15. I traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
16. I observed the annual certified budget for proper authorization, certification and timely amendment.

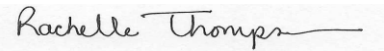
Based on the performance of the procedures described above, I identified various findings and recommendations for the City. My findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

I was engaged by the City of Eldon's management to perform this agreed-upon procedures engagement and conducted my engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. I was not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, I do not express such an opinion or conclusion. Had I performed additional procedures, other matters might have come to my attention that would have been reported to you.

I am required to be independent of the City of Eldon and to meet other ethical responsibilities, in accordance with the relevant ethical requirements related to my agreed-upon procedures engagement.

To the Honorable Mayor and
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The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting findings and recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Rachelle Thompson". The signature is written in dark ink on a light-colored, slightly textured background.

Rachelle K. Thompson, CPA
Hampton, Iowa

October 15, 2021

Detailed Findings and Recommendations

City of Eldon
Detailed Findings and Recommendations
For the period April 1, 2020 through March 31, 2021

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparing and distributing.
- (5) Utilities – billing, collecting, depositing and posting.
- (6) Financial reporting – preparing and reconciling.

Recommendation – I realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

- (B) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be signed by the Mayor and City Clerk, posted/published within fifteen days of the meeting, document the vote of each member present, include a list of claims along with the purpose of each claim, a summary of receipts by fund, a summary of total disbursements by fund and a summary of ordinances or amendments adopted. Annual individual gross salaries are also required to be posted/published. For the minutes tested, it was noted the vote of each member present was not documented, there was no summary of receipts by fund, and no summary of total disbursements by fund.

Recommendation – The City should comply with the Chapter 372.13(6) of the Code of Iowa. The City should ensure the minutes document the vote of each member present, include a summary of receipts by fund and a summary of total disbursements by fund.

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The review should be documented by the signature or initials of the reviewer and the date of the review.

- (D) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks for all bank accounts as required by Chapter 554D.114 of the Code of Iowa.

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- (E) Bank Reconciliations – The cash balances in the City’s general ledger were reconciled to bank account balances throughout the year, however reconciliations were not reviewed by an independent individual.

Recommendation – The City should establish procedures to ensure an independent person reviews the reconciliations and documents the review by signing or initialing and dating the monthly reconciliations.

- (F) Certified Budget – Disbursements during the year ended June 30, 2020 exceeded the amounts budgeted in the public safety, public works, culture and recreation, community and economic development and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (G) Payment of General Obligation Capital Loan Notes - Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund.” In March 2021, the City advance refunded the general obligation capital loan notes, series 2004 from the Enterprise, Sewer Fund.

Recommendation – The City should transfer funds to the Debt Service Fund to make all general obligation payments in the future.

- (H) Payment of Principal and Interest – Principal and interest payments were recorded incorrectly in the general ledger as operating supplies disbursements rather than as other financing uses – principal and interest.

Recommendation – Principal and interest on all long-term loans/notes should be properly recorded.

- (I) Payroll – Timesheets did not include evidence of supervisory review. In addition, approved pay rates and pay increases should be documented in the minutes.

Recommendation – All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll. In addition, all salary and wage increases should be approved by Council as a specific dollar amount and documented in the minutes.

- (J) Non-Profit Donations – The City approved a \$10,000 contribution to Eldon Uptown Downtown, which is a private, non-profit corporation.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a private non-profit corporation. Article III, Section 31 of the Constitution of the State of Iowa states, “...no public money or property shall be appropriated for local, or private purposes, unless such appropriation, compensation, or claim, be allowed by two thirds of the members elected to each branch of the general assembly.”

Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for

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any city purpose, by any city officer, employee or other person and which show the receipt, use, and disposition of all city property.”

The Iowa Attorney General issued a letter of advice (advice letter) dated April 22, 2008 regarding the propriety of a gift to a private non-profit organization, which states, in part:

“...I do not believe that a City library board may simply donate funds received from private donors to a private non-profit organization to use and invest as the non-profit organization sees fit. Unless the library board retains the ability to oversee expenditures and to demand return of the funds in the event that future trustees do not agree with that delegation of control over the funds, the transaction violates the public purpose and non-delegation principles discussed above. Further, even if safeguards are put in place to assure ongoing oversight and control, I believe that the funds continue to be ‘public funds,’ subject to the deposit and investment standards contained in Code sections 12B and 12C (of the Code of Iowa) and that the funds must be earmarked and spent for the purpose for which the gift was given. A 28E agreement may provide a vehicle to facilitate joint public and private influence over the use of gifts received by a governmental body, by incorporating ongoing public oversight and accountability to the joint undertaking.”

Recommendation – A 28E agreement, as described in the advice letter, does not exist. I am not aware of any statutory authority for the City to relinquish its fiduciary responsibility over its public funds to a separate non-profit organization. The City should immediately discontinue all donations.